

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name No Houghton Co Water & Sewage Authority	County Houghton
Fiscal Year End 12/31/07	Opinion Date 05/16/08	Date Audit Report Submitted to State 05/29/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

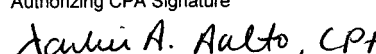


Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA		Telephone Number (906) 337-2727	
Street Address 200 Fifth Street, Suite 104		City Calumet	State MI
Zip 49913			
Authorizing CPA Signature 	Printed Name Jackie A. Aalto	License Number 110122394	

**NORTH HOUGHTON COUNTY WATER
AND SEWAGE AUTHORITY**

FINANCIAL REPORT

Year ended December 31, 2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
North Houghton County Water and Sewage Authority
Calumet, Michigan

I have audited the accompanying basic financial statements of the North Houghton County Water and Sewage Authority as of and for the year ended December 31, 2007 as listed in the table of contents. These financial statements are the responsibility of the North Houghton County Water and Sewage Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the North Houghton County Water and Sewage Authority, as of December 31, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 16, 2008 on my consideration of the North Houghton County Water and Sewage Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Houghton County Water and Sewage Authority's basic financial statements. The supplementary information (identified in the table of contents) is presented for purposes of additional analysis and is also not a required part of the basic financial statements of the North Houghton County Water & Sewage Authority. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

Calumet, Michigan
May 16, 2008

North Houghton County Water and Sewage Authority

Management's Discussion and Analysis Year ended December 31, 2007

This section of the annual financial report of the North Houghton County Water and Sewage Authority (the "Authority") presents our discussion and analysis of the entity's financial performance for the year ended December 31, 2007. This discussion should be read in conjunction with the financial statements which follow.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Since the Authority's sole purpose is to operate and manage a sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

Total assets decreased by \$239,286. This decrease in total assets is primarily the result of the decrease in net capital assets, which was offset partially by the increase in operating revenues due to an increase in sewer rates in November 2006. Net capital assets decreased \$532,856. This net decrease was due to depreciation of \$404,856 and a capital contribution of land for \$128,000 to the Charter Township of Calumet, Michigan.

Total liabilities decreased \$143,195. This decrease is primarily the result of the repayment of revenue bonds.

Operating revenues were \$994,669, an increase of 14.37 percent from 2006. Operating expenses of \$777,571 were up 2.34 percent from 2006. Sewer fees from residential and commercial customers in the Authority's service area comprised most of the revenue collected during the year.

The Authority generates cash from sanitary sewage fees based on water usage and a flat monthly service charge charged to its customers. It uses the cash to pay for current operations and to pay the interest and principal on long-term bonds issued to construct the sanitary sewage system. In 2007, net cash increased \$101,234 or 22.84 percent.

Sewage rates were increased in November 2006 and again in 2008 to a level which the Authority believes will be sufficient for the Authority's operations and debt service for the coming year. The Authority believes that it is in substantial compliance with all relevant federal and state requirements for the operation of a sanitary sewage system. A large decrease in water usage would impact the Authority's revenue, which could result in additional rate increases in the future. The Authority is not aware of any circumstances that would cause a significant reduction in water usage. As discussed in Note III D to the Financial Statements, one customer accounted for 12.29 percent of the Authority's 2007 revenue. Should this one customer significantly lower its water usage, it could have an impact on the financial performance of the Authority and could result in increased rates for the remainder of the customer base. The Authority is not aware of any plans by the customer to significantly alter its water usage at the present time.

Financial Analysis of the Authority as a Whole

The following tables provide a summary of the Authority's financial activities and changes in net assets:

North Houghton County Water and Sewage Authority Summary of Net Assets

	<u>12/31/07</u>	<u>12/31/06</u>
Current and other assets	\$ 372,383	\$ 302,212
Restricted assets	796,845	713,951
Deferred charges	76,824	79,514
Capital assets, net	<u>13,913,053</u>	<u>14,385,909</u>
Total assets	<u>15,159,105</u>	<u>15,481,586</u>
Accounts payable and other current liabilities	182,975	181,170
Revenue bonds payable	<u>8,035,000</u>	<u>8,180,000</u>
Total liabilities	<u>8,217,975</u>	<u>8,361,170</u>

Net assets:		
Invested in capital assets, net of related debt	5,733,053	6,064,909
Restricted for debt service	766,245	682,816
Unrestricted	<u>441,832</u>	<u>372,691</u>
Total net assets	<u>\$ 6,941,130</u>	<u>\$ 7,120,416</u>

**North Houghton County Water and Sewage Authority
Summary of Changes in Net Assets**

	<u>12/31/07</u>	<u>12/31/06</u>
Operating revenues	\$ 994,669	\$ 869,696
Operating expenses	<u>777,571</u>	<u>759,781</u>
Operating income	217,098	109,915
Nonoperating revenues (expenses), net	(328,384)	(349,604)
Capital contributions (to) from other gov't units	<u>(128,000)</u>	<u>2,097,527</u>
Change in net assets	(239,286)	1,857,838
Total Net Assets - Beginning	<u>7,180,416</u>	<u>5,262,578</u>
Total Net Assets - Ending	<u>\$ 6,941,130</u>	<u>\$ 7,120,416</u>

Contacting the Authority's Management

This financial report is designed to provide taxpayers, creditors, investors and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues it receives. If you have questions concerning this report please contact Mr. Paul Lehto, Chairman, 25880 Red Jacket Road, Calumet, Michigan 49913.

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Statement of Net Assets

December 31, 2007

ASSETS			
CURRENT ASSETS:			
Cash	\$	31,760	
Investments		19,024	
Interest receivable		2,753	
Accounts receivable, net		286,655	
Inventory		9,346	
Prepaid items		<u>22,845</u>	\$ 372,383
NONCURRENT ASSETS:			
Restricted Assets:			
Cash		512,631	
Investments		<u>284,214</u>	796,845
Deferred charges			76,824
Capital assets not being depreciated		331,979	
Capital assets being depreciated, net of accumulated depreciation		<u>13,581,074</u>	<u>13,913,053</u>
Total Assets			<u>15,159,105</u>
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable		5,279	
Accrued expenses		2,096	
Payable from restricted assets:			
Accrued interest		30,600	
Current maturities on revenue bonds		<u>145,000</u>	182,975
NONCURRENT LIABILITIES:			
Revenue bonds payable			<u>8,035,000</u>
Total Liabilities			<u>8,217,975</u>
NET ASSETS			
NET ASSETS:			
Invested in capital assets, net of related debt		5,733,053	
Restricted for debt service		766,245	
Unrestricted		<u>441,832</u>	
Total Net Assets			<u>\$ 6,941,130</u>

The notes to the financial statements are an integral part of this statement.

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Statement of Activities

For the year ended December 31, 2007

OPERATING REVENUES:

Sewer user fees	\$ 985,207
Other services	4,080
Miscellaneous	<u>5,382</u>

Total Operating Revenues	<u>994,669</u>
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OPERATING EXPENSES:

Salaries, wages & benefits	190,114
Administration	19,387
Supplies & maintenance	96,645
Utilities	36,990
Insurance	29,579
Depreciation	<u>404,856</u>

Total Operating Expenses	<u>777,571</u>
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Operating Income	<u>217,098</u>
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NONOPERATING REVENUES (EXPENSES):

Interest income	38,695
Interest expense	(374,500)
Unrealized gain on investments	10,111
Amortization of bond issuance costs	<u>(2,690)</u>

Total Nonoperating Revenues (Expenses)	<u>(328,384)</u>
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Income (loss) before capital contribution	(111,286)
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Capital contribution to other governmental unit	<u>(128,000)</u>
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Change in Net Assets	(239,286)
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TOTAL NET ASSETS – Beginning, adjusted	<u>7,180,416</u>
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TOTAL NET ASSETS – Ending	<u>\$ 6,941,130</u>
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The notes to the financial statements are an integral part of this statement.

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Statement of Cash Flows

For the year ended December 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 952,126
Payments to suppliers	(183,496)
Payments to employees	<u>(190,214)</u>

Net cash provided (used) by operating activities 578,416

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Principal paid on capital debt	(141,000)
Interest paid on capital debt	<u>(375,035)</u>

Net cash provided (used) by capital and related financing activities (516,035)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>38,853</u>
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Net increase in cash 101,234

CASH – Beginning 443,157

CASH – Ending \$ 544,391

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income	\$ 217,098
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	404,856
Increase in accounts receivable	(42,543)
Decrease in prepaid items	665
Decrease in accounts payable	(1,560)
Decrease in accrued expenses	<u>(100)</u>

Net cash provided (used) by operating activities \$ 578,416

Noncash investing, capital & financing activities:

Contributions to other governmental unit	\$ 128,000
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The notes to the financial statements are an integral part of this statement

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2007

I. Summary of Significant Accounting Policies

A. Reporting Entity

The North Houghton County Water and Sewage Authority (the "Authority") was formed in 1983 for the purpose of constructing and making improvements to waste water collection, transmission, and treatment facilities within the service area of the Authority. It operates under a seven member board consisting of two members from the Village of Laurium, one member from Osceola Township, one member from the Village of Calumet and three members from the Charter Township of Calumet. Financial activity of the Authority began during 1986. In 1989, the Authority acquired an existing sewage system from the Village of Laurium. It also purchased sewer lines from a local water company in 1990. The Authority completed sewer system improvement projects in 1993, 1995, 2002 and 2003 with funding provided by various sources. In 2006 the Charter Township of Calumet, Michigan donated the Wolverine/Kearsarge sewer system and land to the Authority.

B. Basis of Presentation

The Authority records its financial activity under the proprietary fund type, and within the category of an enterprise fund. The Enterprise Fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The Authority applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

The statement of activities distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2007

connection with the Authority's principal ongoing operations. The Authority's principal operating revenue relates to charges for sewage collection services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities and Net Assets

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Authority had no cash equivalents at December 31, 2007. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments are reported at fair value, based on quoted market prices and include U.S. Treasury notes, bonds and certificates of deposit with maturities of three months or more.

2. Accounts Receivable

Receivables for sewer fees are shown net of an allowance for uncollectibles, where applicable.

3. Inventory and Prepaid Items

Inventory is valued at the lower of cost or market, using the first-in/first-out (FIFO) method. Inventory consists of expendable material held for consumption. The cost is recorded as an expense at the time the inventory material is consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets – Cash & Investments

Certain resources set aside for enterprise fund revenue bonds and interest payments and equipment replacement are classified as restricted assets on the statement of net assets because their use is limited by the applicable bond covenant or by capital contributors.

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2007

5. Capital Assets

Capital assets, which include property, plant and equipment, are valued at historical cost or estimated cost if actual historical cost is not available. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Improvements to capital assets that add to the value of the asset or materially extend the asset's life are capitalized at cost. Interest costs incurred during construction of assets are also capitalized. In the case of donations the Authority values these capital assets at the estimated fair value of the item on the date of its donation.

Land with an original cost of \$10,000, and a sewer system, with an original cost net of depreciation of \$455,718, were transferred to the Authority from the Village of Laurium on July 11, 1989 and were capitalized by the Authority at net book value. During 1990, the Authority obtained the sewage lines that lie within the Authority's boundaries at a cost of \$352,501. However, the purchase price did not include the lines within the Villages of Calumet and Laurium since those lines were donated to the Authority. The estimated fair market value of the donated lines has not been determined. Therefore, no related basis has been recorded in the financial records of the Authority.

Land with an original cost of \$17,874 and a sewer system, servicing residents in the Wolverine/Kearsarge area, with an original cost net of depreciation of \$2,048,551, were donated to the Authority from the Charter Township of Calumet, Michigan (the "Township") on August 17, 2006. These assets were capitalized by the Authority at net book value, which approximates fair value.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Sewer System	50 years
Building & improvements	40 years
Machinery, equipment & furniture	5 to 7 years
Vehicles	5 years

6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2007

II. Detailed Notes on All Funds

A. Deposits and Investments

Michigan Compiled Laws Section 129.91, authorizes the Authority to make deposits and invest in accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits are in one financial institution in the name of the Authority. The investment policy adopted by the Authority is in accordance with statutory authority.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2007, the carrying amount of cash and restricted cash was \$544,391 and the bank balance was \$547,592, all of which is covered by federal depository insurance.

As of December 31, 2007, the Authority had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasuries	\$ 183,238
Certificates of deposit	<u>120,000</u>
	<u>\$ 303,238</u>

B. Restricted Assets

Restricted assets (cash and investments) as of December 31, 2007 and 2006 are as follows:

	<u>Bond & Interest Redemption Funds</u>	<u>Bond Reserve Funds</u>	<u>Equipment Replacement Fund</u>	<u>Totals</u>
Restricted assets 12/31/06	\$ 214,933	\$ 394,328	\$ 104,690	\$ 713,951
Additions (withdrawals), net	<u>(2,105)</u>	<u>28,957</u>	<u>56,042</u>	<u>82,894</u>
Restricted assets 12/31/07	<u>\$ 212,828</u>	<u>\$ 423,285</u>	<u>\$ 160,732</u>	<u>\$ 796,845</u>

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2007

The ordinance authorizing the Sewage Disposal System Revenue Bonds requires that the Authority establish Revenue Bond and Interest Redemption Funds and Bond Reserve Funds in amounts not less than the stated annual requirements. At December 31, 2007 the account balances are sufficient to satisfy the bond ordinance requirements.

C. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 459,979	\$ _____	\$ (128,000)	\$ 331,979
Capital assets being depreciated:				
Building & improvements	15,103			15,103
Sewer system	17,337,025			17,337,025
Machinery, equipment & furniture	284,170		(250)	283,920
Vehicles	69,927	_____	_____	69,927
Total capital assets being depreciated	17,706,225		(250)	17,705,975
Accumulated depreciation	(3,720,295)	(404,856)	250	(4,124,901)
Total capital assets being depreciated, net	13,985,930	(404,856)	_____	13,581,074
Total capital assets, net	\$14,445,909	\$ (404,856)	\$ (128,000)	\$13,913,053

Capital Contribution to Other Governmental Unit:

On August 2, 2007 the Authority donated approximately 120 acres of land with a value of \$128,000 to the Charter Township of Calumet, Michigan.

D. Long Term Debt

Revenue Bonds

The Authority issues bonds where it pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

	<u>Wastewater System Projects</u>							
	<u>5%</u>	<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>	<u>3.25%</u>	<u>4.5%</u>	<u>4.1%to5.05%</u>	<u>Totals</u>
Balance 1/1/07	\$2,185,000	\$ 834,000	\$ 110,000	\$3,936,000	\$ 728,000	\$ 399,000	\$ 129,000	\$8,321,000
Proceeds								
Principal payment	(50,000)	(19,000)	(3,000)	(51,000)	(11,000)	(5,000)	(2,000)	(141,000)
Balance 12/31/07	\$2,135,000	\$ 815,000	\$ 107,000	\$3,885,000	\$ 717,000	\$ 394,000	\$ 127,000	\$8,180,000

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2007

The annual principal payments on the above bonds, payable on June 1 and December 1 of each year, increase incrementally from \$1,000 to \$220,000. Interest is payable on all bond obligations semi-annually on June 1 and December 1.

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending December 31,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 513,524	\$ 145,000	\$ 368,524
2009	515,829	154,000	361,829
2010	512,702	158,000	354,702
2011	513,424	166,000	347,424
2012	517,760	178,000	339,760
2013-2017	2,559,718	990,000	1,569,718
2018-2022	2,544,930	1,226,000	1,318,930
2023-2027	2,538,862	1,532,000	1,006,862
2028-2032	2,212,754	1,590,000	622,754
2033-2037	1,506,593	1,195,000	311,593
2038-2041	<u>906,231</u>	<u>846,000</u>	<u>60,231</u>
	<u>\$14,842,327</u>	<u>\$ 8,180,000</u>	<u>\$6,662,327</u>

Total interest incurred by the Authority was \$374,500 for the year ended December 31, 2007.

E. Net Asset Adjustment

On August 31, 2006 280 acres of land were donated to the Authority and recorded at \$140,000. The correct fair value of this property was \$200,000. Therefore, beginning net assets have been increased by \$60,000.

III. Other Information

A. Risk Management

The Authority is exposed to various risks of loss related to property loss, torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries, as well as medical benefits provided to employees. All risk of loss is covered by commercial insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2007

B. Commitments and Contingencies

The Authority receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Authority's management, such disallowances, if any, will not be significant to the Authority's financial statements.

C. Retirement Plan – Defined Benefit

Description of Plan and Plan Assets

The Authority is in an agent multiple-employer, statewide, defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by a nine member Retirement Board. MERS was established to provide a pooled program for retirement, survivor and disability benefits. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was originally established under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document, as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent non-profit public corporation, which is an instrumentality of the participating municipalities and courts. Prior to that time, MERS was a component unit of the State of Michigan and operated within the Department of Management and Budget. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

All permanent employees of the Authority are eligible to participate in the plan upon working at least 10 full work days in a given month. As of December 31, 2006, the most recent report available, the Authority had 4 active covered employees, 0 inactive vested members and 0 retirees and beneficiaries. The annual covered payroll at that date totaled \$125,167 and the Authority's total payroll for all employees was \$137,526.

Under the provisions of the plan, pension benefits vest after 10 years of credited service. Participants may elect normal retirement at age 60 with 10 or more years of credited service or early retirement at age 55 with 15 or more years of credited service, and at age 50 with 25 or more years of credited service.

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2007

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Authority's board and does not require employees to contribute to the plan. The Authority is required to contribute at an actuarially determined rate; the rate for 2007 was 11.40%.

Annual Pension Cost

During the fiscal year ended December 31, 2007, the Authority's contributions totaling \$11,924 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2006. The employer contribution rate has been determined based on the entry age normal actuarial cost method and are based upon the benefit plan(s) adopted by the Authority. Under the entry age normal cost method, the total actuarially-determined contribution requirement is the sum of the normal cost and the payment required to amortize the unfunded accrued liability over the amortization period of 30 years, less the accelerated funding credit, if available. The employer normal cost is, for each employee, the level percentage-of-salary contribution (from entry age to retirement) required each year to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5%, plus a percentage based on age-related scale to reflect merit, longevity and promotional salary increases.

The following information has been prepared to provide the information necessary to comply with GASB Statements Numbers 25 and 27. All entries and the annual employer contribution amount were based on the actuarial methods and assumptions that were used in the December 31, 2006 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

GASB 25 INFORMATION (as of 12/31/06)

Actuarial Accrued Liability

Retirees and beneficiaries current receiving benefits	\$	0
Terminated employees (vested former members) not yet receiving benefits		0
Non-vested terminated employees (pending refunds of accumulated member contributions)		0

Current employees –

Accumulated employee contributions including allocated investment income		0
Employer financed		<u>239,899</u>

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Notes to Financial Statements

December 31, 2007

Total Actuarial Accrued Liability	239,899
Net Assets Available for Benefits at Actuarial Value	<u>173,951</u>
(Market value is \$176,384)	
Unfunded (Overfunded) Actuarial Accrued Liability	65,948

GASB 27 INFORMATION (as of 12/31/06)

Fiscal year beginning	January 1, 2008
Annual Required Contribution (ARC)	\$ 14,940
Amortization Factor Used – Underfunded Liabilities (30 years)	0.054719

Three year trend information as of December 31 follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 9,848	\$ 12,518	\$ 11,924
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	130,288	149,311	173,951
Actual accrued liability	163,561	176,025	239,899
Unfunded AAL	33,273	26,714	65,948
Funded ratio	80%	85%	73%
Covered payroll	89,853	100,589	125,167
UAAL as a percentage of covered payroll	37%	27%	53%

D. Economic Dependency – Major Customer

The Authority had one customer in 2007 who accounted for more than 10% of total revenue. The following is information regarding this customer for the year ended December 31, 2007.

	<u>Amount</u>	<u>% of Total</u>
Annual revenue	\$ 994,669	12.29%

SUPPLEMENTARY INFORMATION

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

**Schedule of Revenues and Expenses – Budget to Actual
Operations Only**

For the year ended December 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
OPERATING REVENUES:			
Sewer user fees	\$ 950,000	\$ 955,000	\$ 985,207
Other	<u>12,200</u>	<u>14,800</u>	<u>9,462</u>
Total Operating Revenues	<u>962,200</u>	<u>969,800</u>	<u>994,669</u>
OPERATING EXPENSES:			
Salaries, wages & benefits	195,650	194,350	190,114
Administration	19,100	18,440	19,387
Supplies & maintenance	113,500	89,500	96,645
Utilities	33,430	35,450	36,990
Insurance	31,000	29,000	29,579
Depreciation	<u>360,000</u>	<u>360,000</u>	<u>404,856</u>
Total Operating Expenses	<u>752,680</u>	<u>726,740</u>	<u>777,571</u>
Operating Income	<u>\$ 209,520</u>	<u>\$ 243,060</u>	<u>\$ 217,098</u>

This schedule is supplemental information. It is prepared to present revenues and expenses related to current operations only and as such does not present the results of operations on the basis of generally accepted accounting principles.

FEDERAL PROGRAMS

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
North Houghton County Water and Sewage Authority
Calumet, Michigan

I have audited the basic financial statements of the North Houghton County Water and Sewage Authority, as of and for the year ended December 31, 2007, and have issued my report thereon dated May 16, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the North Houghton County Water and Sewage Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Houghton County Water and Sewage Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the North Houghton County Water and Sewage Authority's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the North Houghton County Water and Sewage Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the North Houghton County Water and Sewage Authority's financial statements that is more than inconsequential will not be prevented or detected by the North Houghton County Water and Sewage Authority's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses as items 07-01 and 07-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the North Houghton County Water and Sewage Authority's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiencies described above are not material weaknesses.

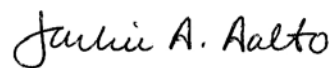
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Houghton County Water and Sewage Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the North Houghton County Water and Sewage Authority in a separate letter dated May 16, 2008.

North Houghton County Water and Sewage Authority's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the North Houghton County Water and Sewage Authority's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
May 16, 2008

NORTH HOUGHTON COUNTY WATER AND SEWAGE AUTHORITY

Schedule of Findings and Responses

Year ended December 31, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

07-01 Ability to Prepare Financial Statements

Finding: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due principally to the small size of the Authority and the limited funds available to the Authority, the hiring of accounting personnel capable of writing the Authority's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

07-02 Lack of Segregation of Duties

Finding: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to the small size of the Authority and the limited funds of the Authority, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Authority's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Authority Board assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

To the Board of Trustees
North Houghton County Water & Sewage Authority
Calumet, Michigan

In planning and performing my audit of the financial statements of the North Houghton County Water and Sewage Authority (the “Authority”) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered the Authority’s internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, I do not express an opinion on the effectiveness of the Authority’s internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

My consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control that I consider to be material weaknesses, as defined above. Please refer to the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for deficiencies in internal control that I consider to be significant deficiencies.

In addition, I noted other matters involving the internal control and its operations that are reported below:

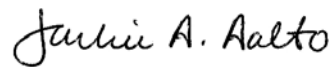
1. Review the Detail of Accounts Receivable. As an effective control procedure over accounts receivable, I recommend that an appropriate person periodically review the accounts receivable trial balance and other supporting records for unusual items such as the following:
 - Unusually large entries or transactions (relative to the balance, the customer, or the Authority).
 - Unusual credits.
 - Credit balances.
 - Significant delinquent balances.
 - Unusual items or patterns (such as an unusual number of credits or write-offs).
 - Unusual numbers of credit memos or voids, late charges, or misclassifications.
 - Accounts written off shortly after being established, particularly ones on which no payments were recorded.

In addition, I noted that credit memos and adjustments are not approved. I recommend that all credit memos be approved by a responsible person before credit is given to a customer.

2. The Authority should have formal written contracts between itself and its outside billing agents.
3. Adopt a written conflict of interest policy.
4. Adopt a written capitalization policy.

This communication is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the Authority personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.



Jackie A. Aalto, CPA

Calumet, Michigan
May 16, 2008